

ANNUAL REPORT

FIRST NATIONAL STORES

FOR THE YEAR ENDING MARCH 30, 1963



FIRST NATIONAL STORES INC.

OFFICERS

ADRIAN O'KEEFFE, *President*

TIMOTHY F. HARRIGAN, *Vice-President*

JOHN L. MACNEIL, *Vice-President*

EDMUND J. MURPHY, *Vice-President*

REUBEN KAPLAN, *Treasurer*

WILLIAM A. RYAN, *Secretary and Clerk*

JOHN L. DONOVAN, *Controller*

DIRECTORS

RALPH F. BURKARD

RICHARD C. EVARTS

BYRON M. FLEMMING

REUBEN KAPLAN

JOHN L. MACNEIL

EDMUND J. MURPHY

ADRIAN O'KEEFFE

BERNARD M. O'KEEFFE

WILLIAM A. RYAN

EXECUTIVE COMMITTEE

JOHN L. MACNEIL

EDMUND J. MURPHY

ADRIAN O'KEEFFE

TO THE STOCKHOLDERS OF FIRST NATIONAL STORES INC.:

Somerville, Massachusetts, June 3, 1963

In the 52-week fiscal year which ended on March 30, 1963 sales amounted to a new high of \$746,088,986, and compared with sales of \$711,303,869 in the preceding 53-week year.

Earnings totaled \$7,788,116, equal to \$4.73 a share while earnings for the 53 weeks in the prior fiscal year were \$8,172,116, or \$4.98 a share.

Dividends of \$2.50 a share were paid during the year, consisting of four quarterly payments of 50c a share and a year-end special dividend of 50c.

The following is a brief summary of our operations:

	For the Fiscal Year Ending	
	<i>March 30, 1963</i>	<i>March 31, 1962</i>
	(52 Weeks)	(53 Weeks)
Retail Store Sales	\$746,088,986	\$711,303,869
Net earnings after taxes	\$ 7,788,116	\$ 8,172,116
Per share of common stock (on average number of shares outstanding for the year)	\$ 4.73	\$ 4.98
Net working capital (current assets less current liabilities)	\$ 28,802,850	\$ 22,784,896
Fixed or property assets (less depreciation)	\$ 66,312,301	\$ 68,138,236
Stockholders' equity (net worth)	\$ 92,580,628	\$ 89,328,856

Included in this report are charts showing the results of our operations for prior years. The chart on earnings per share gives effect, for all years, to the 2 for 1 stock split in 1951.

Our financial condition continues strong. Net expenditures for fixed assets during the year amounted to \$9,967,340 and note indebtedness was reduced by the sum of \$1,700,000. Working capital totaled \$28,802,850 and compared with \$22,784,896 in the prior year. Stockholders' equity continued to rise and reached \$92,580,628, an increase of \$3,251,772 over the preceding year.

During the year twenty-nine stores were opened, thirty-two were extensively remodeled or enlarged and fifty-one were closed. Of the stores that were opened, the majority were in shopping centers. At year-end there were six hundred and ten stores in operation, of which four hundred and ninety-six were supermarkets and produced approximately 96% of total sales.

A significant development during the year was the greatly increased promotional activity by food retailers in New England, New York and New Jersey. Trading stamps had been inaugurated by our principal competitor immediately prior to the start of our fiscal year in New York and a little earlier in New England. This circumstance produced an immediate reaction of intense and varied merchandising activity in our entire operating territory. The severe competitive atmosphere prevailed throughout the fiscal year. Because of this situation, a substantial increase in your Company's promotional expense was necessary. We intend to continue vigorous and aggressive merchandising policies to further the growth of our Company.

We are constantly striving for the utmost efficiency in every department of our Company. Our program of cost control has been broadened and intensified to effect savings in operations wherever possible. It is expected that this campaign will produce economies which will benefit the Company currently and in future years as well.

The year was marked by a strike of three weeks duration by most of our store employees in New York. This regrettable work stoppage, which was jurisdictional in nature, disrupted service to our customers and adversely affected sales in the stores involved.

Plans for new store openings in the current fiscal year are again substantial. It is expected that at least thirty new supermarkets will be opened and many others will be remodeled or enlarged. Our stores will offer the widest variety of foods together with selected general merchandise and larger units will continue to include many special departments featuring convenience foods to make shopping more attractive and interesting for homemakers. In our development program, research is being constantly carried on to find better ways of serving the consumer. All new trends in the field of retailing are under continuing study.

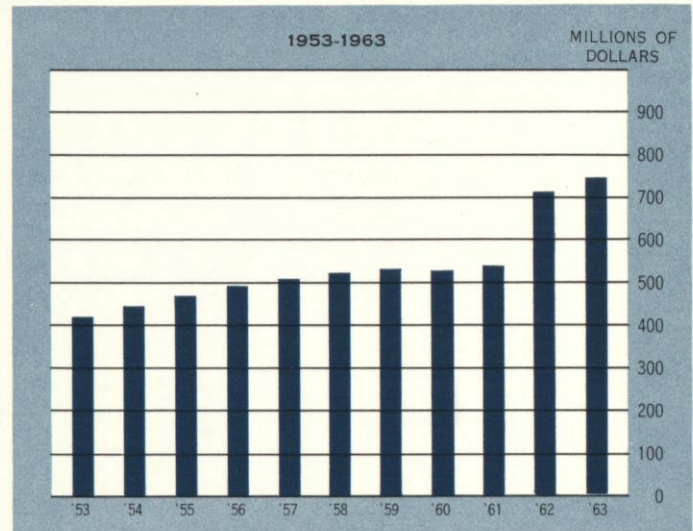
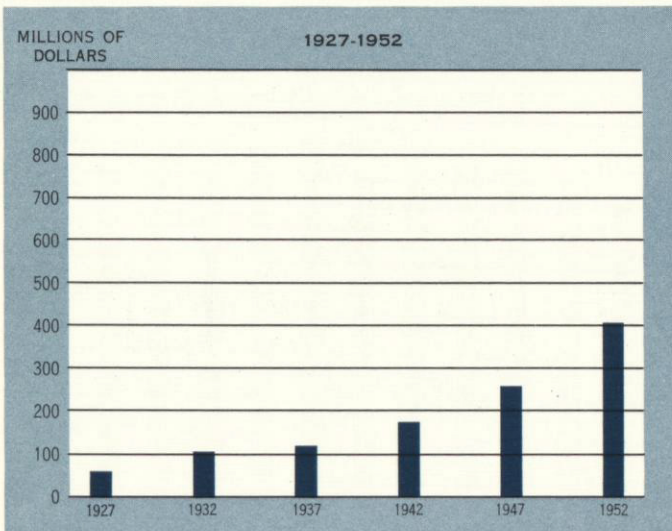
In the important area of Personnel Development our management training activity has been extended. In addition to our continued participation in the industry-sponsored programs at Michigan State and Cornell Universities, employees with leadership potential have been enrolled in special Food Marketing and Management Programs of local universities. This enrollment has included, also, some of our outstanding part-time employees who intend to remain in food retailing because of the many attractive career opportunities our Company can provide for them. The training and management development program, which has been in operation in recent years, is now producing the results that were anticipated when it was originally adopted. A number of the young men who have had the benefit of food distribution courses at the college level have now begun to assume posts of importance in the Company.

We report with sorrow the death on November 11, 1962 of James J. O'Hare who served as a Director of First National Stores Inc. since 1933.

The able performance of our employees in meeting the challenges of our dynamic industry and in promoting the progress of the Company is greatly appreciated.

ADRIAN O'KEEFFE,
President

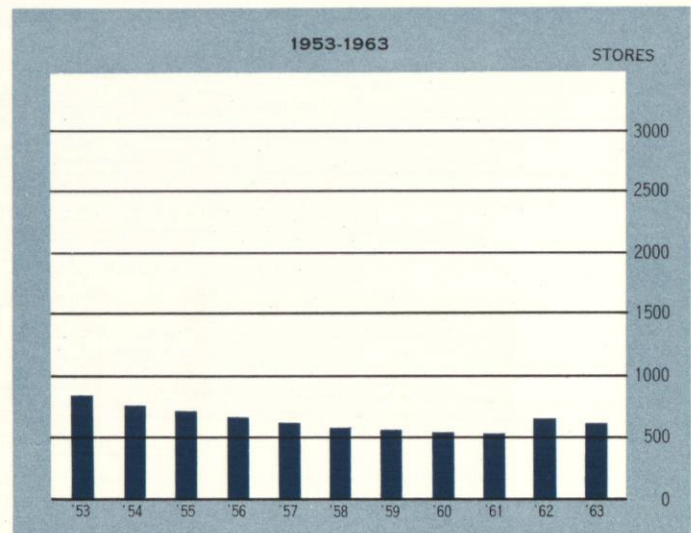
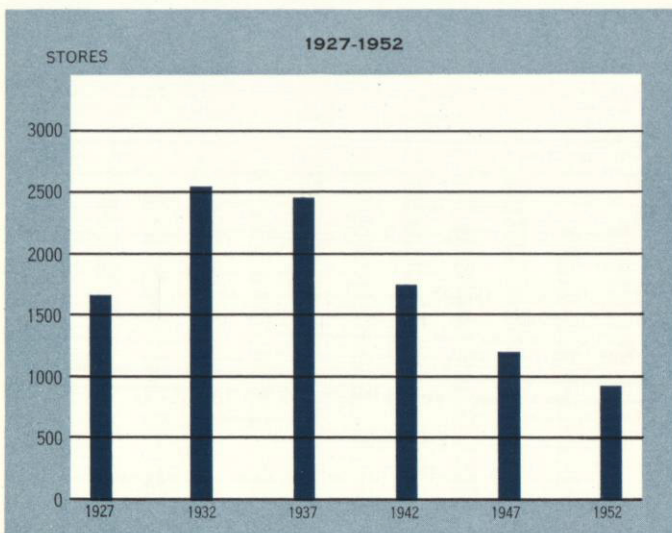
SALES



Retail Stores Sales — Fiscal Years

1927	\$ 59,038,304	1934	\$105,812,781	1940	\$131,041,157	1946	\$182,131,241	1952	\$406,773,153	1958	\$521,494,993
1928	64,445,962	1935	111,323,463	1941	142,680,921	1947	256,506,910	1953	424,521,672	1959	531,521,108
1929	75,884,639	1936	119,575,417	1942	174,378,932	1948	315,915,554	1954	442,180,165	1960	525,350,950
1930	107,635,216	1937	120,682,961	1943	187,839,592	1949	354,444,614	1955	470,628,572	1961	536,485,553
1931	108,196,686	1938	124,294,617	1944	164,924,978	1950	344,171,022	1956	491,667,908	1962	711,303,869
1932	107,634,383	1939	124,222,955	1945	170,236,678	1951	371,853,140	1957	507,361,437	1963	746,088,986
1933	100,892,947										

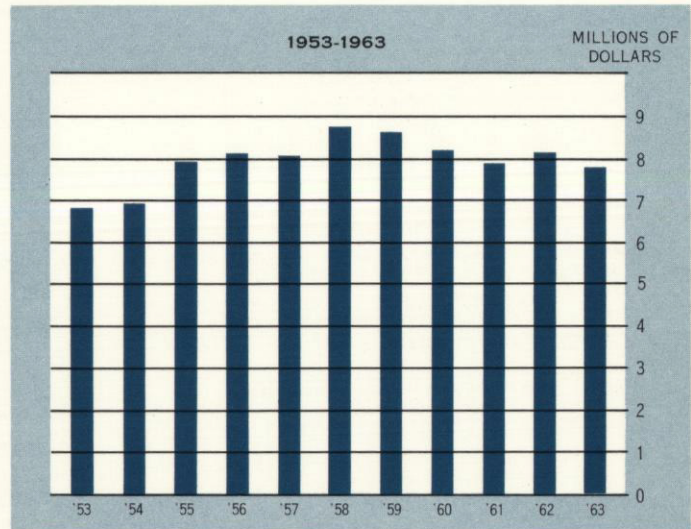
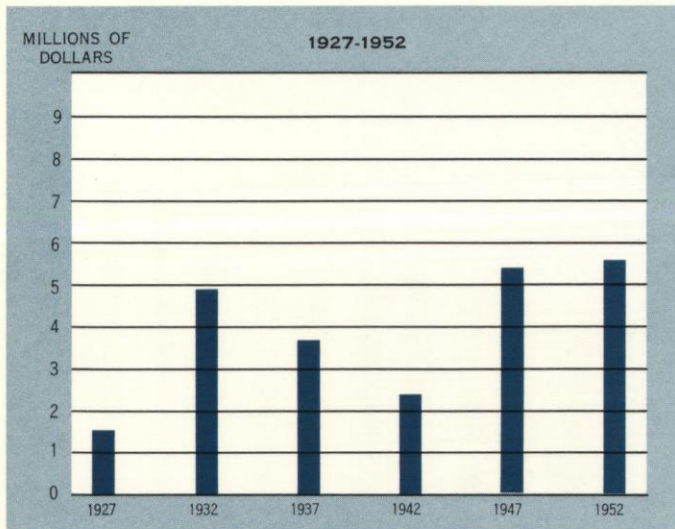
STORES



Stores — Fiscal Years

1927	1681	1934	2653	1940	2137	1946	1236	1952	922	1958	575
1928	1717	1935	2623	1941	1923	1947	1201	1953	847	1959	543
1929	2002	1936	2556	1942	1748	1948	1150	1954	761	1960	534
1930	2549	1937	2473	1943	1585	1949	1083	1955	702	1961	516
1931	2548	1938	2350	1944	1463	1950	1033	1956	661	1962	632
1932	2546	1939	2244	1945	1340	1951	979	1957	607	1963	610
1933	2705										

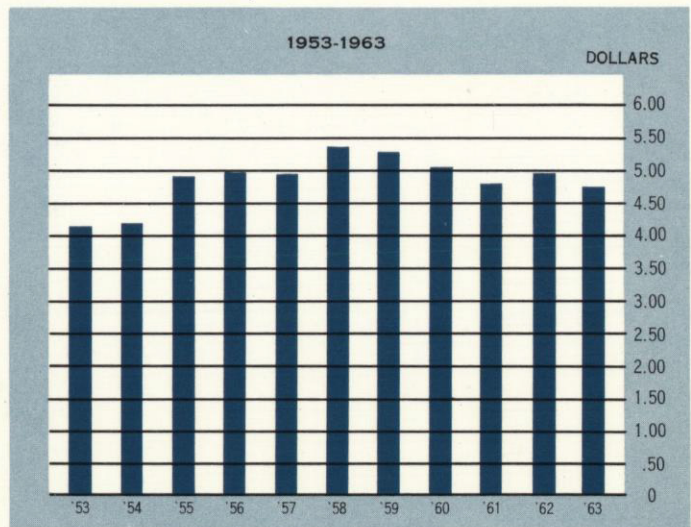
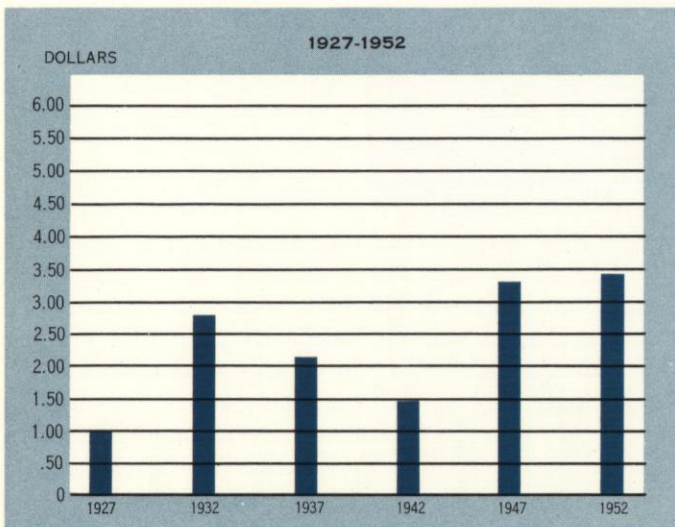
NET INCOME
(AFTER APPROPRIATIONS)



Net Income — Fiscal Years

1927	\$1,492,193	1934	\$4,394,830	1940	\$2,739,074	1946	\$2,885,555	1952	\$5,571,415	1958	\$8,799,277
1928	1,593,358	1935	3,433,504	1941	2,508,719	1947	5,357,235	1953	6,742,051	1959	8,649,288
1929	2,904,884	1936	3,163,329	1942	2,380,294	1948	5,629,705	1954	6,830,629	1960	8,222,725
1930	4,773,446	1937	3,647,001	1943	2,465,079	1949	5,905,880	1955	7,968,619	1961	7,858,961
1931	4,479,108	1938	2,705,191	1944	2,235,104	1950	6,997,980	1956	8,071,326	1962	8,172,116
1932	4,825,611	1939	2,774,366	1945	2,294,604	1951	6,134,530	1957	8,039,041	1963	7,788,116
1933	4,220,099										

PER SHARE COMMON EARNINGS
(AFTER APPROPRIATIONS
ON SHARES OUTSTANDING AT END OF YEAR)



Per Share Common — Fiscal Years

1927	\$0.96	1934	\$2.48	1940	\$1.67	1946	\$1.76	1952	\$3.40	1958	\$5.37
1928	1.04	1935	1.95	1941	1.53	1947	3.27	1953	4.11	1959	5.28
1929	2.04	1936	1.82	1942	1.45	1948	3.43	1954	4.17	1960	5.02
1930	2.69	1937	2.12	1943	1.51	1949	3.61	1955	4.86	1961	4.80
1931	2.52	1938	1.57	1944	1.36	1950	4.27	1956	4.93	1962	4.98
1932	2.76	1939	1.69	1945	1.40	1951	3.74	1957	4.91	1963	4.73
1933	2.39										

FIRST NATIONAL STORES INC.

BALANCE SHEET

ASSETS

	MARCH 30 1963	MARCH 31 1962
Current assets:		
Cash	\$ 19,666,380	\$ 19,189,088
Accounts receivable	4,563,143	3,745,242
Inventories, on last-in, first-out cost basis, which is below market	41,236,497	45,867,150
Total current assets	<u>\$ 65,466,020</u>	<u>\$ 68,801,480</u>
Fixed assets, at cost (excluding fully-depreciated assets):		
Land	\$ 8,545,870	\$ 9,927,038
Buildings owned	35,861,636	35,027,344
Store fixtures, leased property improvements, machinery and equipment	84,276,439	77,314,128
Automotive equipment	6,160,946	5,828,738
	<u>\$134,844,891</u>	<u>\$128,097,248</u>
Less — Depreciation	68,532,590	59,959,012
	<u>\$ 66,312,301</u>	<u>\$ 68,138,236</u>
Other assets and deferred charges:		
Investment in and advances to wholly-owned subsidiary companies, at cost (represented by underlying net assets of \$1,302,057 in 1963, \$1,485,123 in 1962)	\$ 533,500	\$ 705,828
Prepaid insurance and other deferred expenses	5,607,188	7,131,287
Miscellaneous	1,074,789	818,609
	<u>\$ 7,215,477</u>	<u>\$ 8,655,724</u>
	<u>\$138,993,798</u>	<u>\$145,595,440</u>

NOTES TO FINANCIAL STATEMENTS

Note 1: As of March 31, 1962 options to purchase 38,700 shares of the company's common stock were held by certain officers and key employees of the company and its subsidiaries under the company's restricted stock option plan. During the year an additional option was granted for 300 shares at a price of \$57.72 per share and options for 1800 shares were cancelled. At March 30, 1963 options for 37,200 shares were outstanding at prices ranging from \$57.72 to \$64.25 per share of which options for 9,225 shares were exercisable. Under the plan, options may be granted to purchase shares of the company's common stock at a price not less than 95% of the fair market value on the date granted. The options become exercisable in equal annual instalments over a four-year period beginning one year after the date granted. At March 30, 1963, 37,800 additional shares were available for future option under the plan.

Note 2: In the loan agreement covering the 4.50% and the 4.70% Notes there are restrictions on the payment of cash dividends and the acquisition of the company's common stock. At March 30, 1963 the portion of earnings employed in the business available for such payments and acquisitions was approximately \$16,500,000.

FIRST NATIONAL STORES INC.

BALANCE SHEET

LIABILITIES

	MARCH 30 1963	MARCH 31 1962
Current liabilities:		
Accounts payable	\$ 20,811,512	\$ 27,769,245
Notes payable	3,000,000	4,200,000
Accrued expenses	8,777,908	8,562,361
Current portion of long-term debt	250,000	250,000
Federal income taxes	3,823,750	5,234,978
Total current liabilities	<u>\$ 36,663,170</u>	<u>\$ 46,016,584</u>
Long-term debt:		
4.50% Notes, due in equal semiannual instalments, 1964 to 1967	\$ 1,750,000	\$ 2,250,000
4.70% Notes, due in equal semiannual instalments, 1967 to 1982	8,000,000	8,000,000
	<u>\$ 9,750,000</u>	<u>\$ 10,250,000</u>
Stockholders' equity:		
Common stock, without par value (Note 1):		
Authorized — 2,000,000 shares		
Issued — 1,655,268 shares	\$ 31,977,422	\$ 31,977,422
Earnings employed in the business (Note 2)	61,370,653	57,682,580
	<u>\$ 93,348,075</u>	<u>\$ 89,660,002</u>
Less — Issued common stock held in treasury — 15,670 shares in 1963, 7,598 in 1962, at cost	767,447	331,146
Total stockholders' equity	<u>\$ 92,580,628</u>	<u>\$ 89,328,856</u>
Lease commitments (Note 3)		
	<u>\$138,993,798</u>	<u>\$145,595,440</u>

Note 3: At March 30, 1963 the company had commitments under 573 long-term leases covering stores and warehouses. Minimum annual rental commitments under these leases amount to approximately \$11,400,000. In addition to minimum rentals the company pays taxes, insurance, maintenance and other expenses related to the leased premises and, in some cases added rentals based on percentage of sales. Most leases are renewable at the option of the company.

Note 4: In addition to depreciation provided on the cost of fixed assets in amounts which are permitted and used for federal income tax purposes, the company has continued to provide and charge earnings with accelerated depreciation on store buildings computed on a basis which is related to estimated fair rental values. Such accelerated depreciation, not currently deductible for federal income tax purposes, amounted to \$477,000 in 1963 and \$300,000 in 1962.

Note 5: The investment tax credit provided for in the Revenue Act of 1962 amounts to \$955,000 of which 48% has been taken into income and the balance has been deferred and is being spread over the lives of the facilities.

FIRST NATIONAL STORES INC.

STATEMENT OF EARNINGS

	YEAR ENDED	
	MARCH 30, 1963 (52 weeks)	MARCH 31, 1962 (53 weeks)
Income:		
Retail store sales	\$746,088,986	\$711,303,869
Dividends received from wholly-owned subsidiary companies (net earnings for the year — \$96,262 in 1963, \$100,706 in 1962)	107,000	107,000
Other income	89,391	66,224
	<u>\$746,285,377</u>	<u>\$711,477,093</u>
Costs and expenses:		
Cost of sales, expenses, etc., exclusive of depreciation	\$719,323,678	\$683,226,857
Provision for depreciation of fixed assets (Note 4)	12,353,949	10,533,391
Interest expense	680,308	543,061
Net loss (gain) on disposal of fixed assets	(560,674)	371,668
Provision for federal income taxes	6,700,000	8,630,000
	<u>\$738,497,261</u>	<u>\$703,304,977</u>
Net earnings	<u>\$ 7,788,116</u>	<u>\$ 8,172,116</u>

STATEMENT OF EARNINGS EMPLOYED IN THE BUSINESS

YEAR ENDED MARCH 30, 1963

Balance, March 31, 1962	\$ 57,682,580
Net earnings	7,788,116
	<u>\$ 65,470,696</u>
Cash dividends paid — \$2.50 per share	4,100,043
Balance, March 30, 1963	<u>\$ 61,370,653</u>

OPINION OF INDEPENDENT ACCOUNTANTS

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF FIRST NATIONAL STORES INC.

In our opinion, the accompanying balance sheet and statements of earnings and earnings employed in the business present fairly the financial position of First National Stores Inc. at March 30, 1963 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

PRICE WATERHOUSE & CO.

Boston, Massachusetts
May 20, 1963

Geographical Distribution
of
610 FIRST NATIONAL STORES



TRANSFER AGENTS: THE FIRST NATIONAL BANK OF BOSTON, BOSTON CHEMICAL BANK NEW YORK TRUST COMPANY

REGISTRARS: STATE STREET BANK AND TRUST CO., BOSTON BANKERS TRUST CO., NEW YORK, NEW YORK

